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TREASURY FOR OTA: STEFANIE FUGATE, ANN GREEN AND DO: VIRGINIA
BRANDON

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E.O. 12958: N/A

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SUBJECT: US TREASURY TAX PROGRAM TERMINATED - WORK STILL TO BE DONE

¶1. SUMMARY: Since a U.S. Department of Treasury advisor began working with Ethiopia's Federal Inland Revenue Agency (FIRA) to improve its audit and collection programs in March 2004, FIRA has increased revenue collection by over 65 percent. While the assistance has shown tremendous results - largely through training in audit programs, where Treasury advice has been implemented - including increasing revenue collection by billions of birr, budgetary constraints have required the Department of the Treasury to end the program. Ethiopia's tax system still requires work and technical guidance to increase the government's revenue collection capability. Post would strongly support the continuation of this program or the establishment of a successor program, if funding can be located and FIRA implements Business Process Re-engineering (BPR). END SUMMARY.

SUCCESSFUL TECHNICAL ASSISTANCE

¶2. By all accounts, the technical assistance to FIRA has produced some notable successes. The work plan was based on training FIRA personnel to become self-sufficient and able to teach others in the future. At the beginning of the program there was a moratorium on audits. Despite this, Treasury forged ahead in training FIRA's auditors and developed an audit manual. The moratorium was lifted in December 2005, and auditors are now securing significant revenue to government coffers through their training in auditing methods, case file documentation, and basing audits in Ethiopia's tax law. Additionally, FIRA auditors have spread their knowledge by training all auditors in each of Ethiopia's nine regional tax administrations.

¶3. The technical assistance has not been as successful in the collections department due to a lack of staff (there are only 20 collectors for a country of over 70 million people) and resources (such as telephone and transportation). Nevertheless, training in collections has shown some modest results. In the Ethiopian fiscal year 2005, FIRA collected 355.72 million birr (nearly 4 million USD) in delinquent taxes, and in FY 2006 collected over 2 billion birr (about 220 million USD) more in total revenues than in the year before. While not all of the increase can be attributed to the Treasury technical assistance, clearly improved audit and collection practices have played a part. (NOTE: The increases are particularly significant given Ethiopia's status as a low-income country heavily dependent on donor nations for budget support. Any increase in tax revenue can be seen as a stimulus for economic development and offset dependence on foreign aid and transfers to fund public services. END NOTE.)

A FLAW IN THE SYSTEM

¶4. Treasury representatives identified a feature of Ethiopia's decentralized tax collection system that allows significant amounts of tax to remain uncollected. FIRA is responsible for collecting

value added tax (VAT) and corporate taxes. Collection of taxes on individuals and sole proprietors falls to the 11 city and region tax entities in Ethiopia. FIRA and the other 11 tax collecting entities in Ethiopia are separate entities under the federal Constitution, and therefore a comprehensive audit including the corporate and individual entities cannot be made by FIRA. Thus, if FIRA finds evidence in an audit of VAT or corporate returns that indicates tax is owed on individual or sole proprietor taxes, they can not pick up the returns for audit and make sure the tax is paid. Hence millions of birr are unreported and unpaid. Because their chains of command are different, there is little cooperation between the tax administrations.

ADDITIONAL WORK NEEDED

¶15. While the Treasury program has achieved significant results, and met the 2007 objectives, additional work remains. Treasury Advisor Ann Green has specifically highlighted needs in taxpayer service, internal audit, appeals, international matters and specialized auditing. Additionally the city and regional tax administrations need assistance to more thoroughly collect revenues due and reduce their dependence on transfers from the central government. FIRA is undergoing Business Process Reengineering (BPR), which is expected to increase its operating efficiency. The U.S. Treasury Department stated that a positive outcome of BPR may make FIRA better able to compete for limited Office of Technical Affairs funds.

¶16. COMMENT: While tax collection in Ethiopia faces multiple challenges ranging from structure to staff to lack of basic resources, the impact of Treasury's training and assistance can be seen in the bottom line of increased collections. The impact of this program will continue as trained personnel provide training to others. However, there is still important work to be done in

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improving FIRA's capacity. While post does not have resources to fund continuation of the project, post would support continuation of the technical assistance if additional funds can be located from another source. END COMMENT.

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